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Indonesia

Dairy and Products

Annual

2005

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Report Highlights:
In 2006, Indonesia's imports of milk powder are forecast to remain on par with the previous year, breaking several consecutive years of growth. Expectations for an erosion in consumer purchasing power as well as higher fuel costs hinder prospects for continued growth in 2006. Nonetheless, Indonesia will remain an important market for U.S. milk solids, with expectations that 2006 will top the record-setting pace of exports in 2005.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Jakarta [ID1]
[ID]

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Executive Summary

Productivity in Indonesia's fluid milk production sector remains very low, and Indonesia will remain an importer for the majority of its dairy product needs. Due to expectations for an overall rise in consumer prices, consumption in 2006 is forecast to remain stable, unlike in previous years when demand achieved double-digit growth. Nonetheless, diversification and specialization in the sector is expected to continue, as consumers continue to look for new products. With little increase in demand expected in 2006, growth in imports will be constrained. However, U.S. dairy solids are increasingly competitive in this market, and prospects for continued growth in U.S. sales remain bright.

Production

Indonesia's milk production sector consists of about 90 dairy cooperatives with an estimated dairy cow population of about 320,000 head. On farm productivity is generally quite low, with the average producer owning 3-4 cows and milk production at 10-12 liters/cow/day. Domestic milk production in 2005 is estimated at about 48,200 tons, accounting for about 30 percent of total needs, and is forecast to grow only marginally in 2006.

Many structural factors inhibit growth in the sector: small farm structure; a lack of technology and improved genetics; inadequate acquisition, distribution, and cold storage infrastructure; insufficient feed supplies; unfavorable weather; poor milk quality; inconsistent hygiene and sanitation practices at the farm level; and a short lactating period. These same factors lead to problems with milk quality. Reportedly, the quality of fresh milk produced by local farmers often does not meet the quality standards set by the dairy processors.

Government officials, the Indonesian Milk Industry Association, and the Union of Indonesian Dairy Cooperatives have engaged in efforts to boost the sector's efficiency and output, but the results of these programs have been discouraging. Most recently, the dairy processors have been in discussions with producer cooperatives to negotiate higher purchase prices. However, meaningful gains in productivity would require significant outlays of capital to create modern and competitive dairy production units. Indonesia's current business climate makes prospects for this type of investment in the dairy sector very doubtful in the near to medium term.

Domestic fluid milk production is used for whole milk powder (WMP) production. Local WMP production is expected to grow only slightly in 2006. There is no significant production of NDM, and domestic needs are met entirely by imported products.

In contrast to the small-scale and relatively inefficient milk production units, milk processing is dominated by a handful of dynamic, competitive, and large companies. Five dairy manufacturers (Nutricia/Sarihusada, Nestle Indonesia, Friesche Vlag Indonesia, Indomilk, and Ultrajaya) dominate the industry, accounting for 90 percent of the total sales volume. These large firms produce a variety of dairy based products, including infant foods, sweetened condensed milk, and several types of beverages. Competition is fierce, with new product development ongoing and marketing efforts designed to reach consumers across the sprawling archipelago.

Consumption

With expectations for an erosion in consumer purchasing power, demand for milk powder is not expected to grow significantly in 2006. Higher fuel prices are having an impact throughout the economy, and will likely result in consumers reducing purchases of some products, including dairy products. The higher fuel prices have also led to increased manufacturing, storage, and transportation costs for the dairy processors. Lack of growth in 2006 would represent the first time in several years demand has not achieved double-digit growth.

Compared to its ASEAN neighbors, Indonesian per capita milk consumption remains low at 6.5-7 liters/capita/year. Use of milk powder for processing is the leading component of consumption. Top consumer products include powdered milk (skim milk, infant and children formula, and formula for pregnant and lactating women), sweetened condensed milk, ready to drink milk (such as fresh milk, UHT, pasteurized and homogenized dairy mix). With the increasing awareness of the better nutritional value contained in liquid milk, the prominence of sweet condensed milk in the consumption mix is declining, and more are turning to liquid milk. The market share of liquid milk market is forecast to reach 20 percent in 2006. While increasingly available in modern retail outlets in urban areas, consumption of other dairy products, such as cheese, butter, ice cream, and yogurt is still low. Nonetheless, further product segmentation and specialization continues, including formulas for babies to toddlers, pregnant & lactating woman formulas, elder formula, high calcium, low-fat milk and multi-flavored milk beverages. These specialized formulations are replacing the market share of ordinary milk powders, such as instant milk powder and full cream powdered milk.

Trade

With expectations that consumption will remain stable in 2006, little growth in imports is expected. Total milk solid imports are forecast at around 165,000 tons in 2006, with NDM accounting for about 80 percent of this quantity. NDM imports for 2005 are estimated to increase about 8 percent relative to the previous year.

Given their freight advantage and long historical presence in Indonesia's dairy market, Australia and New Zealand continue to be the dominant suppliers, but the US presence is growing. With international prices levels reaching parity, US milk powder is competitive. In early October 2005, landed NDM prices were quoted at $2,100-$2,200/ton, with very little difference between landed U.S. prices and those from Oceana. Processors also note that the quality of US powder continues to improve, and is as good as that from New Zealand or Australia. As a result, US prospects for exports to Indonesia remain bright. In 2005, U.S. exports of dairy products to Indonesia should set another record.

To compensate for increasing input (fuel) and raw material (NDM) costs, milk processors are increasingly substituting other dairy solids, such as whey protein concentrate (WPC), for NDM in formulations. Therefore, prospects for growth in WPC imports are strong as processors continue to view this as a lower cost input in formulations.

One of many obstacles in importing dairy to Indonesia is that for every shipment importers must attach the original copy of a Halal certificate.

On the export side Indonesia continues to trans-ship imported milk from New Zealand to the Middle East and North Africa. This trade is estimated at about 10-20,000 tons per year.

Stocks

Any stocks are only held by the private sector as pipeline supplies.

Tables

PSD Table						
Country	Indonesia					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		01/2004		01/2005		01/2006
Beginning Stocks	6	6	6	6	4	4
Production	45	45	45	48	0	50
Intra EC Imports	0	0	0	0	0	0
Total Imports	21	21	22	26	0	31
TOTAL Imports	21	21	22	26	0	31
TOTAL SUPPLY	72	72	73	80	4	85
Intra EC Exports	0	0	0	0	0	0
Total Exports	1	1	1	1	0	1
TOTAL Exports	1	1	1	1	0	1
Human Dom. Consumption	65	65	68	75	0	80
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	65	65	68	75	0	80
TOTAL Use	66	66	69	76	0	81
Ending Stocks	6	6	4	4	0	4
TOTAL DISTRIBUTION	72	72	73	80	0	85
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table

Country	Indonesia					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]
Market Year Begin		01/2004		01/2005		01/2006
Beginning Stocks	12	12	10	10	8	14
Production	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Total Imports	125	125	128	135	0	135
TOTAL Imports	125	125	128	135	0	135
TOTAL SUPPLY	137	137	138	145	8	149
Intra EC Exports	0	0	0	0	0	0
Total Exports	12	12	10	10	0	20
TOTAL Exports	12	12	10	10	0	20
Human Dom. Consumption	115	115	120	121	0	120
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	115	115	120	121	0	120
TOTAL Use	127	127	130	131	0	140
Ending Stocks	10	10	8	14	0	9
TOTAL DISTRIBUTION	137	137	138	145	0	149
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0